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FISCAL IMPACT STATEMENT

LS 6231

BILL NUMBER: HB 1208

NOTE PREPARED: Nov 23, 2003

BILL AMENDED:

SUBJECT: Tax Credit for Certified Internship Programs.

FIRST AUTHOR: Rep. Austin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill requires the Department of Workforce Development to establish a program to certify a state educational institution's internship program if the program meets certain requirements. The bill provides a refundable credit against an Indiana employer's state tax liability equal to 25% of any payroll expenditures made for a student participating in a certified internship. It also limits the total amount of the tax credits to \$5 M in a state fiscal year.

Effective Date: Upon passage; January 1, 2005.

Explanation of State Expenditures: *Department of Workforce Development (DWD):* The certification of the internship programs could increase expenditures for DWD contingent on the number of existing and new internship programs at state educational institutions that could potentially be certified. The November 5, 2003, state staffing table indicates that the DWD has 115 vacant full-time positions, including regional office positions.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. The bill also requires the DOR to oversee approval of credit awards in relation to an annual maximum for aggregate credits. These expenses presumably could be absorbed given the DOR's existing budget and resources.

State Educational Institutions: The impact on state educational institutions to create and operate the internship programs would be covered by student tuition and state appropriations for higher education. The internship would be funded as a course offered by the institution.

Explanation of State Revenues: The bill establishes a refundable tax credit equal to 25% of the payroll expenditures to a student participating in a certified internship program at a state educational institution (see *Explanation of State Expenditures*). The tax credit could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax by an indeterminable amount. However, the fiscal impact would be contingent upon a number of factors, including employer utilization, student interest, and current and future capacity of higher education institutions to operate certified internship programs. The fiscal impact could begin in FY 2006 depending upon how quickly existing and new internship programs can be certified. The bill limits the aggregate credits claimed during any fiscal year to \$5 M.

Background: Under the bill, employers who employ at least one person in Indiana are entitled to a refundable tax credit against the AGI Tax, Insurance Premiums Tax, or the Financial Institutions Tax for payroll expenditures to a student participating in a certified internship program. The student interns must be enrolled on at least a part-time basis at the state educational institution operating the internship program. The internship program must be operated by a state educational institution and certified in accordance with the bill by the Department of Workforce Development. The tax credit is equal to 25% of payroll expenses.

The tax credit is refundable and also may be carried forward to subsequent years. However, taxpayers are not entitled to a carry back of the credit. If an employer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. The bill requires the taxpayer to submit proof of the payroll expenditures to the DOR along with any information required by the DOR to claim the credit. The DOR may not approve a claim for the tax credit during a fiscal year once aggregate credits already approved are equal to the \$5 M limit.

Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund. Since the tax credit is effective beginning in tax year 2005, the fiscal impact could begin in FY 2006 contingent on internship program certification.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Educational Institutions; Department of Workforce Development; Department of Education; Department of State Revenue.

Local Agencies Affected:

Information Sources:

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